

Message Text

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AMEMBASSY TOKYO

AMEMBASSY VIENNA

UNCLAS SAN JOSE 1364

E.O. 11652: N/A

TAGS: BEXP, EFIN, CS

SUBJECT: FINANCING ASSISTANCE FOR SALE OF U.S. HEAVY EQUIPMENT
TO MINISTRY OF PUBLIC WORKS

FOR CHAIRMAN DUBRUL, EX-IM BANK FROM AMBASSADOR TODMAN

1. THE COSTA RICAN MINISTRY OF PUBLIC WORKS AND
TRANSPORT HAS ISSUED A CALL FOR BIDS (E-76-1) TO
PURCHASE EQUIPMENT VALUED AT BETWEEN 20-25 MILLION
DOLLARS FOR PUBLIC ROAD CONSTRUCTION AND MAINTENANCE.
AT MY REQUEST THE MINISTRY HAS EXTENDED THE DATE
FOR ACCEPTANCE OF OFFERS TO MARCH 30, 1976 IN ORDER
THAT U.S. FIRMS MAY HAVE TIME TO ASSEMBLE AND
PRESENT ACCEPTABLE FINANCING PACKAGES.

2. TERMS OF THE BID REQUIRE SUPPLIERS TO OFFER
EQUIPMENT AND FINANCING IN A SINGLE PROPOSAL.
FINANCING SPECIFIED IN THE BID IS ANNUAL PAYMENTS
TO BEGIN ONE YEAR AFTER DELIVERY OF EQUIPMENT
AND SPARES TO SATISFACTION OF MINISTRY. BID
INDICATES IMPORTANT FACTOR IN AWARD WILL BE
FINANCING TERMS.

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3. LOCAL REPRESENTATIVES OF SIX POTENTIAL U.S. SUPPLIERS-INTERNATIONAL HARVESTER, CATERPILLAR, JOHN DEERE, CLARK, ALLIS CHALMERS, AND GENERAL MOTORS-HAVE ADVISED EMBASSY THEY DO NOT BELIEVE THEY CAN PRESENT ACCEPTABLE AND COMPETITIVE FINANCING PACKAGES WITHOUT EX-IM BANK PARTICIPATION. THEY INDICATE COMPETITION FOR SALE OF THIS EQUIPMENT WILL COME FROM JAPANESE, AUSTRIAN, SPANISH, AND BRAZILIAN SUPPLIERS AND THAT FINANCING BEING OFFERED BY THEM WITH THEIR RESPECTIVE GOVERNMENT'S PARTICIPATION WILL BE IN THE RANGE OF 6-8 YEARS WITH INTEREST AT 1 TO 2 PER CENT OVER THE EURODOLLAR RATE. REPRESENTATIVES OF U.S. FIRMS STATE COMMERCIAL BANKS UNWILLING EXTEND CREDIT BEYOND 5 YEARS.

4. IN THE LAST PURCHASE OF HEAVY EQUIPMENT BY THE MINISTRY IN 1970 (VALUED AT ABOUT 12 MILLION DOLLARS) IN WHICH FINANCING REQUIREMENTS WERE THE SAME AS FOR THE PRESENT BID, 23 OFFERS WERE RECEIVED. TWENTY OF THESE WERE REJECTED FOR LACK OF ACCEPTABLE FINANCING OFFERS, AND THE BID WAS AWARDED AMONG THE REMAINING THREE FIRMS, ALLIS-CHALMERS (MOTOR GRADERS, FRONT END LOADERS, TRACTORS), TOYOTA (JEEPS AND SMALL BUSES) AND PEGASO (TRUCKS). FINANCING TERMS RANGED BETWEEN 7 1/2 AND 8 PER CENT, 7 YEARS FOR THE JAPANESE AND SPANISH FIRMS; 8 PER CENT AND FIVE YEARS FOR ALLIS CHALMERS. IT IS VERY UNLIKELY THAT WITH THIS PREVIOUS EXPERIENCE IN MIND, FOREIGN SUPPLIERS WILL AGAIN FAIL TO SUBMIT OFFERS WITHOUT FINANCING WHICH MEETS THE BID REQUIREMENTS.

5. IN THE EX-IM BANK'S ANNOUNCEMENT OF ITS NEW INTEREST RATE POLICY LAST SEPTEMBER YOUR PREDECESSOR MR. CASEY STATED THAT "WITH THE HIGHER EARNINGS THAT WILL RESULT FROM THESE SLIGHTLY HIGHER BASIC RATES, WE WILL BE IN A BETTER POSITION TO MEET COMPETITION WHEN OTHER NATIONS GO BELOW THESE RATES. ON THOSE OCCASIONS WE WILL BE PREPARED

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TO GO AS LOW AS NECESSARY TO MEET COMPETITION, ALWAYS PROVIDED THAT THE BLEND OF EX-IM BANK AND COMMERCIAL BANK RATES DOES NOT FALL BELOW THE 7 1/2 PER CENT FLOOR ON WHICH THE MAJOR INDUSTRIAL COUNTRIES HAVE AGREED."

6. WITH THE FOREGOING IN MIND, I WOULD APPRECIATE THE EX-IM BANK'S BEST EFFORTS IN ASSISTING U.S.

SUPPLIERS IN ARRANGING ACCEPTALBE AND COMPETITIVE
FINANCING FOR THIS BID.
TODMAN

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